
FEDERAL ENERGY REGULATORY COMMISSION



WASHINGTON, D.C. 20426

NEWS RELEASE

NEWS MEDIA CONTACT:

Barbara A. Connors
(202) 502-8680

FOR IMMEDIATE RELEASE

March 3, 2004
Docket No. RM02-1-001
Order No. 2003-A

COMMISSION REAFFIRMS INTERCONNECTION RULE, CLARIFIES PRICING POLICY

The Federal Energy Regulatory Commission today reaffirmed its July 2003 rule (Order No. 2003) that sets standard procedures and agreements for the interconnection of generators larger than 20 megawatts—a move designed to facilitate development of needed infrastructure for the nation's electric system.

Interconnection plays a crucial role in bringing much-needed generation into national energy markets to meet the growing needs of electricity customers, the Commission said today in standing by the legal and policy considerations detailed in its earlier decision.

The rule requires the approximately 176 investor-owned public utilities that own, control or operate interstate transmission service to offer non-discriminatory, standardized interconnection service. It amends Order No. 888's pro forma tariff to help remedy remaining undue discrimination under the open access required by Order No. 888.

Responding to requests for clarification of its pricing policy for network upgrades, the Commission made it clear that the transmission provider continues to have the option to charge the interconnected customer a transmission rate that is the higher of the incremental cost rate for the network upgrades required to interconnect its generating facility or an average embedded cost rate for the entire transmission system (including the cost of the network upgrades).

The Commission emphasized that allowing transmission providers to charge the

R-04-07

(more)

higher of an incremental cost rate or an embedded cost rate ensures that other transmission customers, including the transmission providers' native load, will not subsidize network upgrades required to interconnect merchant generation.

This policy recognizes that all customers benefit from a stronger transmission infrastructure, more reliable service and more competitive power markets, the Commission said.

The Commission granted rehearing on two aspects of Order No. 2003's method for reimbursing generators for the cost of financing network upgrades needed to complete the interconnection.

First, the Commission will no longer require the transmission provider to provide credits to the interconnection customers for all of the transmission delivery services it takes on the system; instead credits are provided only for the transmission delivery service taken by the interconnecting generating facility. Second, the Commission will allow the transmission provider to choose, five years from the commercial operation date of the generating facility, whether to reimburse the interconnection customer at that time for any remaining balance of the cost of financing network upgrades and accrued interest, or continue to provide credits beyond five years until no balance remains.

The Commission also concluded, as it did in Order No. 2003, that it would accord additional flexibility to interconnection pricing proposals that are filed by an independent transmission provider. An independent transmission provider does not have an incentive to discourage new generation by competitors, and should be afforded more flexibility in manner of cost recovery.

Action on a proposed companion rule that applies to interconnection of small generators-- those smaller than 20 megawatts -- is still pending before the Commission and will be addressed in the near future.

Today's order is effective 30 days after its publication in the *Federal Register*.